

## Impressive Performance Despite Q2 Headwinds

### 9M Topline Performance Hoisted by Volume Growth in Q3:2020

The 9M:2020 financial scorecard of Lafarge Africa Plc. (WAPCO) showed that revenue performance bettered the corresponding period last year. Unhindered by setbacks from the COVID-19 containment measures in Q2:2020, revenue grew by 10.32%YoY from NGN163.06bn in 9M:2019 to NGN179.88bn. The impressive outing was due to significant growth in sales volume (+29.70%) in the quarter. Although revenue from aggregates and concretes slipped by 29.86%, its effect was cushioned by an 11.45% YoY jump in cement revenue (c.98% of total revenue). As the company continues to push for a larger market share by strengthening its distribution network, we expect to see volumes growth in subsequent quarters. We are also optimistic about the prospect of the cement market in Nigeria. *We anticipate that cement makers would continue to enjoy robust demand driven by the existing infrastructure gap and the recognition of concrete-based roads as a viable alternative to asphalt. For 2020FY, we estimate a total turnover of NGN230.42bn (compared to our previous forecast of NGN216.48bn) based on a revised capacity utilization of 57% (vs 54% previously). This represents a growth of 8.18% when compared to NGN213.00bn in 2019FY.*

### Lower Finance Costs Boosts Bottomline Performance

During the period, the company continued to intensify efforts on cost optimization under its Health, Cost and Cash Initiative. So far, the result has been a reduction in the cost to sales ratio from 69.11% in 9M:2019 to 68.80% in 9M:2020 and a slightly lower OPEX to sales ratio (8.78% vs. 9.50% in 9M:2019). Although the company was able to reduce costs of production and overheads, the cost implications of the FX devaluation, especially on energy costs is high. Like its peers, we expect FX stability to be a key risk factor to put pressure on costs. However, topline gains and overall cost moderation ensured a slightly higher operating margin of 22.85% in 9M:2020 (vs 21.80% in 9M:2019). Hence, supported by a 54.51% decline in finance cost (a fall out of lower debt obligation as a result of the restructuring in 2019), profit after tax grew by 37.05% to NGN28.20bn in 9M:2020 (vs NGN20.57bn in 9M:2019).

### Balance Sheet Health Unfazed by Pandemic

In our H1:2020 update, our assessment of the company's balance sheet showed the company to be in good financial health following the divestment of the South African subsidiary. As at 9M:2020, our view remains unchanged. Having preserved liquidity through the pandemic, the company's liquidity position as observed through the current ratio (0.83x vs 0.89x in 2019FY) and cash ratio (0.49x vs 0.32x in 2019FY) proved resilient to the effect of the pandemic. This is also true when viewed in comparison to peers (Current ratio; BUACEMENT- 0.62x ; Cash ratio: BUACEMENT- 0.44x) and alongside the industry norm of working capital deficits . Free cashflow also improved by 94.50%YoY to NGN50.60bn during the period given the company's modest CAPEX and improved earnings. In our opinion, these coupled with impressive return to shareholders (34.38% vs 33.37% in 2019FY) and decent gearing (0.15x) highlight the company's financial strength.

### Recommendation

For 2020FY, we revise our EBITDA forecast from NGN65.97bn to NGN68.48bn and maintain a target EV/EBITDA of 4.51x. We thereby arrived at a 2020FY price target of NGN19.88. At the current price of NGN18.50, the implied upside of 7.46% (relative to our 2020TP of NGN19.88) informed our **HOLD** rating on the counter.

Company	WAPCO
<b>Valuation</b>	
EPS	7.62
BVPS	22.16
P/E	2.42x
P/BV	0.83x
Target EV/EBITDA	4.51x
Dec-2020 Exp. EBITDA [NGN]	68.48bn
Dec 2020 Target price	<b>19.88</b>
Current Price	18.50
Up/Downside Potential	7.46%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	34.38%
ROA	24.03%
Net margin	53.40%
Asset Turnover	0.45x
Leverage	0.15x
Yr Hi	1.85
Yr Lo	8.95
YTD return	20.92%
Beta	0.13
Adjusted Beta	0.42
52-Week average volume	5.41mn
Shares outstanding	16.11bn
Market cap [NGN]	<b>297.99bn</b>
Financial year end	Dec
Most Recent Period (MRP)	9M:2020

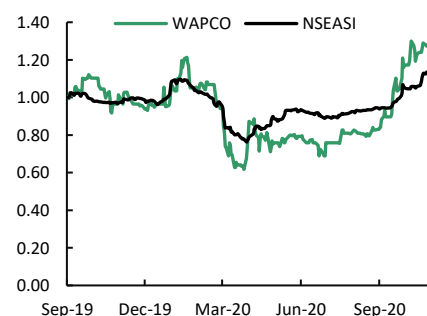


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	18.35
EBITDA per share						Max	21.46
		7.10	7.29	7.48	7.66	7.85	
Target EV/EBITDA	4.28x	18.35	18.64	18.92	19.21	19.49	
	4.40x	18.82	19.11	19.40	19.69	19.98	
	4.51x	19.28	19.58	19.88	20.18	20.48	
	4.62x	19.75	20.05	20.36	20.67	20.97	
	4.74x	20.21	13.53	13.16	21.15	21.46	

Financial Highlights (NGN million) 9M:2020 Financial result			
Profit & Loss Account	9M:2020	9M:2019	y/y Growth
Revenue	179,877	163,057	10.32%
Cost of Sales	123,755	112,690	9.82%
Gross Profit	56,123	50,367	11.43%
Investment Income	721	1,179	-38.79%
Other Income	810	600	35.05%
Operating Expense	15,791	15,488	1.95%
Finance Cost	7,541	16,578	-54.51%
PBT	34,291	20,139	70.27%
PAT	34,292	20,140	-70.27%
Balance Sheet	9M:2020	2019FY	
Inventories	30,356	32,441	-6.43%
Trade and other Receivables	5,105	8,193	-37.69%
Cash and bank	64,852	27,104	139.27%
Property, Plant and Equipment	351,458	369,797	-4.96%
Other Assets	58,917	59,617	-1.17%
<b>Total Assets</b>	<b>510,688</b>	<b>497,152</b>	<b>2.72%</b>
Shareholders' fund	357,003	344,914	3.50%
Trade and Other Payables	80,789	69,718	15.88%
Tax Liabilities	2,724	1,929	41.20%
Total Liabilities	2,732	1,946	40.38%

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## Movements in Price Target

**Company Name:** Lafarge Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
05-Nov-2020	18.50	17.53	19.88	BUY	HOLD
27-May-2020	11.60	14.87	17.52	BUY	BUY

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Company	Disclosure
Lafarge Africa Plc	

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